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No. 05-1056

SUPREME COURT, U.S.
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In The Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

AT&T CORPORATION,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF THE BUSINESS SOFTWARE ALLIANCE AS AMICUS CURIAE SUPPORTING PETITIONER

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QUESTIONS PRESENTED

(1) Whether digital software code – an intangible sequence of "1's" and "0's" – may be considered a "component[] of a patented invention" within the meaning of 35 U.S.C. § 271(f)(1);

– and, if so, –

(2) Whether copies of such a "component[]" made in a foreign country are "supplie[d] . . . from the United States."

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INTEREST OF THE BUSINESS SOFTWARE ALLIANCE[1]

The Business Software Alliance (BSA) promotes global policies that foster innovation, growth and a competitive marketplace for commercial software and related technologies. BSA's membership in the commercial software industry relies on the strength and predictability of United States patent law both to promote innovation by ensuring the enforceability of patents and also to foster United States industry by delineating the proper scope of United States patent law. Foreign sales on average represent 50 percent of total revenues for BSA member companies. BSA therefore has a strong interest in the proper application of patent laws, especially where, as here, the lower court has broadened their reach to encompass purely foreign actions.

The members of the Business Software Alliance include Adobe Systems, Inc., Apple Computer, Inc., Autodesk, Inc., Avid Technology, Inc., Bentley Systems, Inc., Borland Software Corporation, Cadence Design Systems, Inc., Cisco Systems, Inc., CNC Software/Mastercam, Inc., Dell, Inc., Entrust, Inc., Hewlett-Packard Company, IBM Corporation, Intel Corporation, Macromedia, Inc., McAfee, Inc., Microsoft Corporation, Parametric Technology Corporation, RSA, The Security Division of EMC, SAP AG, SolidWorks Corporation, Sybase, Inc., Symantec Corporation, and UGS Corporation.

STATEMENT

Amicus adopts the statement of the case presented in the Brief for Petitioner. For the Court's convenience,

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[1] Petitioner and Respondent have filed letters with the Court consenting to all amicus briefs. Consistent with Rule 37.6, this brief is not authored in whole or in part by counsel for any party. No person, other than amicus or their counsel, has made a monetary contribution to the preparation or submission of this brief. Petitioner is a member of the Business Software Alliance.

amicus highlights below a background on the law of patents and the development of computer software to provide the historical context to the present dispute.

Prior to the adoption of the Constitution, individual states had adopted different patent laws.[2] James Madison, seeing the shortcomings of potentially overlapping patent regimes, noted that states "cannot separately make effectual provision" for patents without uniform or supreme rules. *Fla. Prepaid Postsecondary Educ. Expense Bd.* v. *College Sav. Bank*, 527 U.S. 627, 650 (1999) (citing THE FEDERALIST 267 (H. Lodge ed. 1908)). The Patent Clause[3] reflects the balance between encouraging innovation in the new nation and avoiding monopolies that stifle competition. *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). Acting on this Constitutional authority, Congress wrote the Patent Laws of 1790 and 1793 "to promote the progress of science and useful arts." *Motion Picture Patents Co.* v. *Univ. Film Mfg. Co.*, 243 U.S. 502, 510-11 (1917) (citing *Pennock* v. *Dialogue*, 2 Pet. 1 (1829)).

The history of software development is the paradigm of such progress of science. The full implications of the decision below are made plain by a brief description of how the patent law has evolved with respect to computer programs. The first computer was built in 1936, and the first commercial

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[2] Thomas Jefferson wrote that "Nobody wishes more than I do that ingenuity should receive a liberal encouragement." *Graham* v. *John Deere Co.*, 383 U.S. 1, 8 (1966) (citing LETTER TO OLIVER EVANS (May 1807), V THE WRITINGS OF THOMAS JEFFERSON 75-76 (H.A. Washington ed., Townsend MacConn 1887)). Although wary of monopolies, the Framers nevertheless sought to encourage innovation by granting limited exclusive use to, in the words of James Madison, "the authors of Books, and of useful inventions." *Eldred* v. *Ashcroft*, 537 U.S. 186, 246 (2003) (citing *Monopolies. Perpetuities. Corporations. Ecclesiastical Endowments*, in J. MADISON, WRITINGS 756 (J. Rakove ed. 1999)).

[3] "The Congress shall have Power . . . to promote the progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. 1, § 8.

computer in 1950. However, computers were not widely accessible until the development of the single-chip microprocessor. The microprocessor allowed for compact computers to be assembled relatively inexpensively. The Altair 8800, introduced in 1975, marked the transition from mainframe to personal computer, but was priced for a limited market. Then came the IBM personal computer, released in 1981, which democratized computing power and augured the information revolution. IBM Corp., The Birth of the IBM PC, http://www-03.ibm.com/ibm/history/exhibits/pc25/pc25_birth.html (last visited Dec. 13, 2006).

Computers, however, are simply processing machines and need instructions on what and how to process in order to be of functional use. Software provides those instructions. The earliest machines were hampered by software limitations; programmers could not develop software separate from the machine but instead had to penetrate the master processing unit itself. Before the personal computer, machines ran on several different combinations of microprocessors, and software could not be written for use on machines with all the different combinations. The personal computer led to the development of the Altair BASIC programming algorithms, the first product developed by Microsoft and the first widely distributed software. The booming market for personal computers led to the development of universally compatible software to make them run. *See generally* Bradford Smith & Susan Mann, *Innovation and Intellectual Property Protection in the Software Industry*, 71 U. CHI. L. REV. 241 (2004).

Software makes computers functional by providing instructions to computers to perform specific operations. Software developers create "source code" (computer language that is intelligible to humans) that is then converted into "object code"[4] (a series of binary "1's" and "0's") by compilers. *AT&T Corp.* v. *Microsoft Corp.*, No. 01 Civ.

[4] Object code consists of machine code – code directly executed by a computer's CPU – together with other information.

4872, 2004 U.S. Dist. LEXIS 3340, at *3 n.5 (S.D.N.Y. Mar. 5, 2004). The machine readable object code directs the computer to open or close circuits in specific sequences, creating electrical paths which result in the specified operation. *See Fantasy Sports Props., Inc.* v. *Sportslines.com, Inc.*, 287 F.3d 1108, 1118 (Fed. Cir. 2002); *see also* 17 U.S.C. § 101 (defining a "computer program" as a "set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result"); *WMS Gaming Inc.* v. *Int'l Game Tech.*, 184 F.3d 1339, 1348 n.3 (Fed. Cir. 1999). It is this "machine-readable object code" for the Windows operating system that is on Microsoft's golden master disks (Pet. App. 45a ¶ 4). Foreign "replicators," licensed by Microsoft, make copies of the object code and "ship those foreign manufactured copies" to manufacturers, who install the copies on computers (Pet. App. 45a ¶¶ 5, 6).

AT&T filed a patent infringement lawsuit alleging that certain of Microsoft's products infringed on AT&T's patent. The district court denied Microsoft's motion for partial summary judgment to exclude sales of goods incorporating foreign-replicated copies of infringing software. *AT&T*, 2004 U.S. Dist. LEXIS 3340. On review, the Court of Appeals for the Federal Circuit upheld the denial of the motion because (1) software may be considered a component of a patentable invention under Section 271(f), and (2) foreign-made copies of the software "may be deemed supplied" or have "essentially been supplied from the United States." *AT&T Corp.* v. *Microsoft Corp.*, 414 F.3d 1366, 1369-70 (Fed. Cir. 2005). Judge Rader dissented, saying that "copying and supplying are different acts, and one act of 'supplying' cannot give rise to liability for multiple acts of copying." *Id.* at 1373 (Rader, J., dissenting). Judge Rader further concluded that the "extraterritorial expansion of U.S. patent law contravenes the precedent of this court and the Supreme Court that expressly confines the rights conferred by Title 35 to the United States and its Territories." *Id.* (Rader, J., dissenting).

SUMMARY OF ARGUMENT

To appreciate the competitive, economic and legal import of the decision below, one need only to recognize that this dispute is not between a domestic inventor and a foreign infringer. Rather, it is between two inventors based in the United States. One inventor, the Petitioner, had shipped a copy of its invention overseas. The other inventor, the Respondent, could apply for and prosecute a foreign patent for its innovation. There is no United States liability for foreign actions, whether the invention is used or not.

The holding that the shipment of one golden master disk could lead to multiple acts of infringement, based on the software's replication abroad, subjects software companies to indefinite and unpredictable worldwide liability, irrespective of the companies' ability to control the overseas copying. This decision (1) necessarily changes the way United States software companies will do business, producing results contrary to the intent of United States patent laws, and (2) offends the plain meaning of the statute at issue and circumvents the prerogatives and duties of the Congress.

If allowed to stand, this unjustified and baseless extraterritorial application of United States patent laws – premised on a fundamental misreading of the law and a misunderstanding of the software technology at issue – will corrupt the Constitutional purpose of the patent law to promote the welfare through innovation within our national boundaries. The indefinite liability established by the lower court's opinion for inventive acts done in the United States, with no corresponding liability for foreign inventions, is likely to put at risk America's inventive genius for software innovation. At a minimum, the decision negatively impacts United States software companies' competitiveness with their foreign counterparts, who face no corresponding infringement liability. The risk of liability now faced by American companies, a risk not faced by their foreign competitors, will undoubtedly diminish any

competitive advantage currently enjoyed by those developers in the United States.

Protecting against this result is precisely the rationale behind the strong presumption against extraterritorial application of patent law, a longstanding legal principle. It is well settled that all legislation is presumed to apply only within the territorial jurisdiction of the United States unless the statute expressly provides otherwise, and this presumption is considerably amplified in the context of patent law where Congress is not only concerned with national conditions and international comity, but also with spurring domestic innovation.

The Federal Circuit's crafting of a "software is special" rule has no basis in the law of patents or the logic of business. The language utilized by the court below makes clear that the facts before it did not fit into the statute as written, and thus it had to opine such that the golden master disk was "*deemed* supplied" or the resulting copies had "*essentially* been supplied." *AT&T*, 414 F.3d at 1369-70 (emphasis added). With such judicial license the court ignored the long standing clear statement rule, the presumption against extraterritoriality and an implicit decision by Congress to close one particular "loophole" in the law, but to go no further. Moreover, the Federal Circuit's opinion all but ignored that there is no need for the extraterritorial application that it has given to the statute, for foreign patent law already provides a remedy and inventors may protect their innovations outside of the United States by applying for and enforcing patents in foreign jurisdictions.

In so doing, the lower court exceeded its proper role and rewrote Section 271(f) to apply in ways that Congress did not intend – to create a "software is special" rule, thus treating it differently from other patented material, and by making "copying" outside the territory of the United States equivalent to "supplying" from the United States. Where Congress has not directed that "supplying" is

to bear any other import than that accompanying its contemporary, common meaning, it is not the role of the judiciary to read other words or word meanings into the statute. *See Williams* v. *Taylor*, 529 U.S. 420, 431 (2000) (citing *Walters* v. *Metro. Educ. Enters., Inc.*, 519 U.S. 202, 207 (1997)).

Further, the lower court's finding of a "component" ignored the text and history of Section 271(f), which require that any "component" under its ambit be produced, or at least physically present, in the United States. Nothing in the facts before this Court indicates that anything that became a part of the final allegedly infringing product was ever present in the United States, other than the information contained on the golden master disk. But the Federal Circuit recognized that the term "component," as used in Section 271(g), a provision of law passed after Section 271(f), must refer only to "tangible objects and not intangibles such as information." *Bayer AG* v. *Housey Pharms., Inc.*, 340 F.3d 1367, 1372 (Fed. Cir. 2003).

Under a properly construed Section 271(f), to copy is not to supply, ethereal knowledge is not a component, and unlimited worldwide liability should not attach for a single act of shipping a golden master disk.

ARGUMENT

I. The Decision Below Threatens Domestic Innovation by United States Software Companies and Upends the Purpose of Patent Law.

The lower court's creation by judicial decree of liability that Congress did not intend will have a profound impact both on the companies now faced with potentially limitless exposure and on the United States economy as a whole. The Federal Circuit's decision, if allowed to stand, threatens the competitive viability of an industry that receives on average 50 percent of its revenues from foreign sales. This decision jeopardizes the ability of

United States based companies to compete with their foreign counterparts – competitors who are not subject to the reach of the Federal Circuit.

The lower court's opinion, while claiming faithfulness to the "object and policy" of the whole law, all but ignored the object and policy of the Patent Clause and of patent laws. The court strained the statutory text of Section 271(f) to apply the statute extraterritorially, to a set of circumstances for which it is not intended and contrary to general canons of statutory interpretation. In so doing, the Federal Circuit has pronounced a drastic change in the status quo – one which has significant adverse effects on an industry which, like many others, is highly responsive to legal rules.

A. The Decision Below Threatens Domestic Innovation by United States Software Companies.

The United States government describes the modern United States economy, in the 1990s and beyond, as one defined by the computer software industry: "If steel and shoes were no longer American manufacturing mainstays, computers and the software that make them run were." United States Department of State, Outline of the U.S. Economy, *available at* http://usinfo.state.gov/products/pubs/oecon/chap3.htm. In 2005, the software industry contributed $194 billion and the computer industry $85 billion to the nation's gross domestic product. U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product and Related Measures: Level Change From Preceding Period, *available at* http://bea.gov/bea/newsrel/gdpnewsrelease.com. The software industry's contribution to the GDP reflected an increase from 2.1 percent of GDP in 2002 to 7.4 percent in 2005. U.S. Department of Commerce, Bureau of Economic Analysis, GDP by Industry, *available at* http://www.bea.gov/bea/dn2/home/annual_industry.htm.

A major part of these software and computer industry contributions derives from foreign exports. According to publicly filed annual reports for 2005, foreign sales typically represented 40 to 60 percent of total revenues for BSA member companies, with a high of 85 percent. And while the United States trade deficit reached record highs in 2000, the software industry generated a trade surplus of $20 billion that year. The Global Threat of Software Counterfeiting, Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property, 108th Cong. (testimony of Richard C. LaMagna, Senior Manager, Worldwide Anti-Piracy Investigations Law and Corporate Affairs, Microsoft Corporation (March 13, 2003)), *available at* http://www.microsoft.com/presspass/exec/lamagna/03-13-03lamagnatestimony.mspx. In the year 2000 alone the computer industry generated $800 billion in revenue worldwide, and this was projected to increase ten-fold in the next decade. Karen Wong, *Digital Imaging: E-Business Ecosystem Drives the Industry Forward*, ASIA COMPUTER WEEKLY, Oct. 20, 2000.

The risk of indefinite foreign liability imposed on United States companies for a single act of shipping the golden master disk – a risk that foreign software developers do not bear – may well offset any technological or product advantages United States companies enjoy over their foreign competitors. As the district court acknowledged, the interpretation given below to Section 271(f) has "profound ramifications" for the software and computer industry. *AT&T*, 2004 U.S. Dist. LEXIS 3340, at *2. Far from promoting the "object and policy" of patent law, the Federal Circuit's decision creates unforeseeable risk and unbounded liability for software and computer companies. Software and computer companies based in the United States rely on the strength of United States law both to protect innovation through the enforceability of patents, and also to promote innovation through the manufacturing and selling of their products without the improper assertion of patent rights. Until the Federal Circuit's expansive reading of Section 271(f), these two tenets coexisted harmoniously.

The Federal Circuit's decision drastically alters the status quo and jeopardizes future software advancements in the United States. At the very least, the decision creates a competitive disadvantage for United States software companies vis-à-vis their foreign counterparts. Absent a foreign patent, foreign competitors can make and use an invention patented in the United States without any infringement liability, and the United States product would be burdened with a royalty while foreign competitors are not. With 40 to 60 percent of their revenues derived from foreign exports, the costs to United States software companies attributable to the competitive disequilibrium created by the decision below is certainly substantial, if not catastrophic.

At the extreme, the decision below threatens to recalibrate the decisions of American companies on where they do their research and innovation by attaching substantial and unpredictable risk of liability to research done at home in the United States, while excluding from all such risks innovation done outside of United States territory. This is perversion of the very purpose of the patent law. By opening up the sluice gates to indefinite foreign liability for a single act of shipping a golden master disk from the United States, the decision below risks having companies decide that golden master disks will not be developed in and shipped from the United States.

Legal rules impact corporate decisions, incentives to innovate and American competitiveness. As but one example, consider the United States restrictions on the export of encryption software products of greater than 40-bit length during the 1990s. These restrictions that were far more stringent than those in foreign jurisdictions like the European Union, Canada, Ireland, and Finland, created a regulatory disadvantage that rendered United States companies unable to compete with foreign software companies. While the intent of the restrictions was to increase homeland security, they actually had the potential to create the exact opposite result. By driving expertise in encryption

development overseas, United States encryption technologies would be compromised.

> The most effective means of dealing with strong encryption is to utilize access to the best and brightest cryptographers and security experts in the world. Many such people now reside in America, but as we enable the competitiveness of our foreign rivals in the market for strong encryption, this expertise will gravitate elsewhere.

Encryption: Security in a High-Tech Era, Hearing Before the Subcomm. on Int'l Econ. Policy and Trade, House Comm. on Int'l Relations, 106th Cong. (testimony of Edward J. Black, President and CEO, Computer & Communications Industry Association (May 18, 1999)).

The substantial impact on industry and the economy is but one reason why a new legal rule as dramatic as that adopted by the court below should be effected not by judicial fiat but by the institution best suited to weigh the ramifications of a potential change – Congress.

B. The Purpose of Patent Protection Is To Encourage Domestic Innovation, Not To Drive it Overseas.

From their inception, patent rights have represented a "privilege which is conditioned by a public purpose." *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944). Thomas Jefferson opined that the patent law is about "drawing a line between the things which are worth to the public the embarrassment of an exclusive patent and those which are not." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 148 (1989) (citing 13 WRITINGS OF THOMAS JEFFERSON 335 (Memorial ed. 1904)). Early cases expounded on this notion that the objective of the patent laws was to develop the "genius and industry of the country." *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 187 (1856).

The lower court's decision perverts the purpose of Article I, Section 8, to promote our nation's economic

welfare through innovation. It establishes an irresponsible rule that punishes software inventors for expending their energies at home in pursuit of novel technologies by subjecting those same inventors to heretofore unanticipated and henceforth unforeseeable worldwide liability. The corruption of the Constitutional purpose is exacerbated by the lower court's ruling that innovation done outside our national borders is free of such limitless risk and liability. The decision upsets the industry standard so significantly that it poses the very real risk that companies will no longer be willing or able to develop products within the United States. Such relocation of software development to other countries directly contradicts the historical and constitutional purpose of the patent law regime.

Protecting against this result is precisely the rationale behind the presumption against extraterritorial application of United States laws. It is a general canon of construction that congressional enactments are meant to apply only in the United States unless a contrary intent is evident. *See, e.g.*, *Foley Bros.* v. *Filardo*, 336 U.S. 281, 285 (1949) ("[L]egislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States . . . based on the assumption that Congress is primarily concerned with domestic conditions." (internal citation omitted)).

Concern for jurisdictional comity informs the presumption against extraterritoriality. This Court "ordinarily construes ambiguous statutes to avoid unreasonable interference with the sovereign authority of other nations . . . this rule of construction reflects principles of customary international law." *F. Hoffman-La Roche Ltd.* v. *Empagran S.A.*, 542 U.S. 155, 164 (2004) (internal citations omitted). Further, the extraterritorial application of United States laws poses the risk that United States law may conflict with foreign laws and thereby subject primary actors to conflicting legal obligations. *See E.E.O.C.* v. *Arabian Am. Oil Co. (Aramco)*, 499 U.S. 244, 248 (1991).

This presumption against extraterritorial application of the law is exponentially stronger in the patent context, where Congress is presumed to be concerned not only with domestic conditions and international comity, but additionally with spurring domestic innovation. The domestic scope of patent laws is evident from the earliest cases. "The power thus granted is domestic in its character, and necessarily confined within the limits of the United States . . . and the use of [the patentee's rights] outside of the jurisdiction of the United States is not an infringement of his rights." *Brown*, 60 U.S. at 195. *See also Dowagiac Mfg. Co.* v. *Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915). Even more recently, this Court has stated that "the Congress in the exercise of the patent power may not overreach the restraints imposed by the stated constitutional purpose." *Graham* v. *John Deere Co.*, 383 U.S. 1, 6 (1966). Thus, the presumption against extraterritorial application of United States statutes is particularly robust in the context of patent law.

To rebut this presumption, a statute must contain a "clear statement," explicitly specifying that it is intended to operate extraterritorially. "In this delicate field of international relations there must be present the affirmative intention of the Congress clearly expressed." *McCulloch* v. *Sociedad Nacional de Marineros de Honduras*, 372 U.S. 10, 21-22 (1963). *See also Aramco*, 499 U.S. at 248 ("It is a longstanding principle of American law that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.") (internal citations omitted). In other contexts, this Court has adopted rules regarding what constitutes a "clear statement" from Congress about its intentions. *See, e.g.*, *Gregory* v. *Ashcroft*, 501 U.S. 452, 467 (1991) ("We will not read the ADEA to cover state judges unless Congress has made it clear that judges are *included* . . . it must be plain to anyone reading the Act that it covers judges." (internal citation omitted) (emphasis in original)); *Atascadero State Hosp.* v. *Scanlon*, 473 U.S. 234, 242 (1985) ("Congress may abrogate the States' constitutionally

secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute."); *Nixon* v. *Missouri Mun. League*, 541 U.S. 125 (2004). Absent such a clear statement, no United States law should be read to apply extraterritorially.

Congress enacted Section 271(f) in response to *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972). The Court in *Deepsouth* held that assembling components of a patented product overseas was not an infringement because "our patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States.'" *Id.* at 531 (internal citation omitted). The drafters of Section 271(f) explained that the proposed Section 271(f) "will prevent copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad. This proposal responds to the United States Supreme Court decision in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972), concerning the need for a legislative solution to close a loophole in patent law." *Section by Section Analysis: Patent Law Amendments of 1984*, 130 CONG. REC. H. 10525 (Oct. 1, 1984), *available at* 1984 U.S.C.C.A.N. 5827, 5828, 1984 WL 37541 (Leg. Hist.).

Congress thus aimed to close the loophole identified by *Deepsouth* – to attach liability where components were all manufactured within the United States but then shipped abroad for final assembly of the infringing product. But the enactment of Section 271(f) was addressed to the evasion identified by *Deepsouth*, and does not in any way expand the extraterritorial scope of the patent law to the facts of this case.

> Congress later amended the patent laws to change the specific holding of *Deepsouth* so that a person cannot avoid liability for infringement simply by shipping the parts of an invention from the United States for assembly abroad. This

> change, however, did not disturb the basic premise of *Deepsouth* that the patent laws of the United States do not have an exterritorial effect unless there is a clear signal from Congress that they should. The amended law was merely this "clear and certain signal."

Nicholas Oros, *Infringement Twice Removed: Inducement of Patent Infringement for Overseas Manufacture of Infringing Products Imported by Another*, 10 COMPUTER L. REV. & TECH. J. 163, 175 (2006).

The fundamental error below is that the Federal Circuit took the clear statement provided by Section 271(f) beyond its intended limits. "Nothing in §271(f) or its enacting documents expresses an intent to attach liability to manufacturing occurring wholly abroad." *AT&T*, 414 F.3d at 1375 (Rader, J., dissenting). Yes, Section 271(f) provided a sufficiently clear statement to attach liability for the foreign assembly of domestically manufactured parts. But beyond the limits of that clear statement, the presumption against extraterritoriality holds – and indeed holds with the additional force of the maxim *expressio unius est exclusio alterius*. *See Chevron U.S.A. Inc.* v. *Echazabal*, 536 U.S. 73, 80 (2002).

As the Court explained in declining to apply the Federal Torts Claims Act extraterritorially:

> The applicability of the presumption is not defeated here just because the FTCA specifically addresses the issue of extraterritorial application in the foreign-country exception. To the contrary, as we stated in *United States* v. *Spelar*, 338 U.S. 217, 222 (1949), "that presumption, far from being overcome here, is doubly fortified by the language of this statute and the legislative purpose underlying it." Petitioner does not assert, nor could she, that there is clear evidence of congressional intent to apply the FTCA to claims arising in Antarctica.

Smith v. *United States*, 507 U.S. 197, 204 (1993).

Just so here. The majority opinion below all but acknowledged that Section 271(f) on its face does not extend to the facts of this case when it held that the golden master disk was "*deemed* supplied" or that the resulting copies had "*essentially* been supplied." *AT&T*, 414 F.3d at 1369-70 (emphasis added). Whatever merit such judicial liberty with statutory text may hold in other contexts, it simply has none where, as here, the text must be interpreted in light of a long standing clear statement rule, a presumption against extraterritoriality and an implicit congressional decision not to go further when it enacted Section 271(f).

Quite independently, the interpretive leap below transgresses another canon of statutory construction: "An act of Congress ought never to be construed to violate the law of nations if any other possible construction remains." *Murray* v. *Charming Betsy*, 6 U.S. (2 Cranch) 64, 118 (1804). *See also Hartford Fire Ins. Co.* v. *California*, 509 U.S. 764, 814-15 (1993) (Scalia, J., dissenting) (citing *Aramco*, 499 U.S. at 264 (Marshall, J., dissenting)). "[T]his Court ordinarily construes ambiguous statutes to avoid unreasonable interference with the sovereign authority of other nations." *Empagran*, 542 U.S. at 164 (citing *McCulloch* v. *Sociedad Nacional de Marineros de Honduras*, 372 U.S. 10, 20-22 (1963); *Romero* v. *Int'l Terminal Operating Co.*, 358 U.S. 354, 382-83 (1959); *Lauritzen* v. *Larsen*, 345 U.S. 571, 578 (1953)). As the Court recently explained, "This rule of statutory construction cautions courts to assume that legislators take account of the legitimate sovereign interests of other nations when they write American laws. It thereby helps the potentially conflicting laws of different nations work together in harmony – a harmony particularly needed in today's highly interdependent commercial world." *Empagran*, 542 U.S. at 164-65.

There is little doubt that the decision below implicates the Nation's interests in "a harmony particularly needed in today's highly interdependent commercial world." The

United States government so states in this very litigation. Even where the United States urges the contravention of the law of nations and international comity, "[w]hen construing a statute with potential foreign policy implications, we must presume that the President has evaluated the foreign policy consequences of such an exercise of United States law and determined that it serves the interests of the United States." *United States* v. *Corey*, 232 F.3d 1166, 1179 n.9 (9th Cir. 2000). A fortiori, the United States position in this case that the Court should follow international norms and respect international comity carries special, if not dispositive, weight. *See Empagran*, 542 U.S. at 165.

The Federal Circuit's interpretive transgression creates yet another potential consequence – that other countries will expand the reach of their own patent laws to include purely foreign actions, thereby subjecting American companies to liability abroad for actions that occur within the United States. The presumption against the extraterritorial application of United States statutes sets a precedent for the scope and interpretation of other countries' laws with respect to American citizens and companies. This approach acknowledges "the legitimate sovereign interest of other nations. . . . It thereby helps the potentially conflicting laws of different nations work together in harmony. . . ." *Empagran*, 542 U.S. at 164. The decision below throws this balance into turmoil by prescribing overlapping and potentially conflicting patent protection and by opening the possibility of extraterritorial application of foreign patent law to United States conduct.

The Federal Circuit fails to acknowledge that foreign patent law already provides a remedy. Essentially ignored in the lower court's decision is the fact that United States inventors may protect their innovations from foreign infringement by applying for and enforcing patents in foreign jurisdictions. As Judge Rader correctly asserts in dissent, "while copying in Dusseldorf or Tokyo may indeed constitute infringement, that infringement must find its

remedy under German or Japanese law." *AT&T*, 414 F.3d at 1371. Such a remedy would square with principles of international comity and afford all interested parties – the inventor, the software developer, the home country and the foreign jurisdiction – the protection of an orderly and predictable transnational patent regime.

II. The "Software Is Special" Jurisprudence Created by the Federal Circuit Offends the Text and Purpose of 35 U.S.C. § 271(f).

There is little question that the decision below expands Section 271(f) beyond its intended reach and normal reading. That much is evident from the panel's own statements in the opinion. The court below, apparently, thought it could take such liberties because it needed to account for "realities of software distribution" and "cannot disregard the nature of the relevant technology and business practices underlying a particular litigation." *AT&T*, 414 F.3d at 1370. The meaning of text should not change, the canons of interpretation should not vary, and the patent law should not be special just for software.

Absent the "software is special" lens adopted by the panel decision, Section 271(f) simply does not reach the conduct at issue in this case. Congress used the word "supply" deliberately, and its meaning is distinct from any possible act of copying or replication. Moreover, the reach of 271(f), predicated on the limited Congressional intent to overturn *Deepsouth*, extends only to physical components and not to abstract instructions such as software object code. Deprived of textual and logical support for its reading, the panel decision relies on an old saw: "A literal reading of which would lead to absurd results is to be avoided." *Haggar Co.* v. *Helvering*, 308 U.S. 389, 394 (1940). But this limited exception to textual fealty simply does not stretch to support the panel's proposition that "an interpretation that allows liability to attach only when a party acts in an unrealistic manner is unlikely to be correct." *AT&T*, 414 F.3d at 1369-70.

A. Software Should Not Be Singled Out for Special Treatment.

The panel below abused the text of Section 271(f) in its attempt to divine special meaning of the terms "supply" and "component" for particular application to computer software. Software and computers have allowed people worldwide to interact and conduct their business more efficiently, but they have not changed the meaning of the words "supply" and "component" nor Congress's intent in using them. To divine a software penalty under Section 271(f) is contrary to the proper role of the courts. "As interpreter of the Congressional Acts that have expressed the patent policy of this nation since its beginning this Court is entrusted with the protection of that policy against intrusions upon it." *United States* v. *Line Material Co.*, 333 U.S. 287, 332 (1948).

The Federal Circuit exceeded this role by rewriting in two ways Section 271(f) without regard to a plain reading of the law or any indication of Congressional intent: first, by declaring that software is to be treated differently from other patented material, including other intellectual property; and second, by making "copying" outside the territory of the United States equivalent to "supplying" from the United States. The Federal Circuit's straining of the statutory text for special application to software is particularly problematic in light of the fact that Congress knew about software and other forms of non-physical intellectual property when it enacted Section 271(f). It was Congress that chose not to distinguish between software-related inventions and other patentable inventions. Courts should not rewrite from the bench what Congress did not from the Capitol.

The Federal Circuit decided that Section 271(f) should be interpreted "in a manner that is appropriate to the nature of the technology at issue," *AT&T*, 414 F.3d at 1371. This pronouncement and its contorted application to reach the result below offends the traditional rule that the patent law accords "the same treatment to all forms of

invention." *Eolas Techs. Inc.* v. *Microsoft Corp.*, 399 F.3d 1325, 1339 (Fed. Cir. 2005) (citing TRIPS Agreement, Part II, Section 5 (1994) ("Patents shall be available and patent rights enjoyable without discrimination as to the place of invention[] [and] the field of technology. . . .") (alteration in original)).

The lower court's decision flouts the example the Court set in *Deepsouth*. The Court in *Deepsouth* fulfilled its proper role to "[construe] the language Congress has employed," *Diamond* v. *Chakrabarty*, 447 U.S. 303, 315 (1980), by holding that it "should not expand patent rights by overruling or modifying prior cases construing the patent statutes, unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language." *Deepsouth*, 406 U.S. at 531. In so doing, the Court decided the case based upon the current law – allowing a "loophole" in the statutory text to stand – and left it to Congress to respond with a "clear and certain signal," *id.*, of its intent. In accordance with its proper function as the lawmaking body of the nation, Congress responded to this "loophole," by enacting Section 271(f). If, as the court below surmises, there is a software loophole in 271(f), it is for Congress to close, not the judiciary.

Congress could have re-written Section 271(f) to make a clear statement about the applicability of the statute in the software context. Yet, neither the plain language of the statute nor legislative history specify that software – or any particular patentable subject matter – should receive special treatment under Section 271(f). When Congress intends for products to receive disparate treatment under patent law, it so specifies in the statutory text. For example, in Section 271(g), enacted after Section 271(f), Congress explicitly distinguished between different types of patents by providing for specific treatment of process patents. *See* 35 U.S.C. § 271(g) (2000). This express language singling out process patents for protection in Section 271(g) indicates that "Congress knew how to

protect against foreign use of process patents, and chose to limit such protection to uses which result in the introduction of products into the United States." *ENPAT, Inc.* v. *Microsoft Corp.*, 6 F. Supp. 2d 537, 539 (E.D. Va. 1998). Similarly, Congress knew (and indeed, still knows) about the existence of software when enacting Section 271(f), and could have chosen to extend Section 271(f) to include the copying of software. If Congress had intended for any type of patentable material, including software, to be treated differently under Section 271(f), it would have said so explicitly. *See ENPAT*, 6 F. Supp. 2d at 539 ("Clearly, had Congress intended to prohibit U.S. companies from exporting products which allow foreign companies to make unauthorized use of patented methods, it could have done so in clear, unambiguous language like that found in § 271(g).").

It is not the province of the court to construe patent law to apply differently to different types of patentable subject matter. *See Brown* v. *Duchesne*, 60 U.S. (19 How.) 183 at 196-97 (1856) (holding that the judiciary should not construe laws to reach cases "which Congress evidently could not have contemplated, without departing from the principle upon which they were legislating, and going far beyond the object they intended to accomplish"). The case is even stronger here, where software was not an "unanticipated invention," but rather one of which Congress was and continues to be acutely aware. As such, the Court is confined to applying the statutory text of Section 271(f) in a consistent manner, whether to software or other products. *See Chakrabarty*, 447 U.S. at 315-16.

Indeed, after *Eolas Technologies Inc.* v. *Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005), signaled the "software is special" jurisprudence of the decision below, Congress became keenly aware of the interpretive transgression and actively considered curative action. S. 3818 proposed outright repeal of Section 271(f), and H.R. 2795 proposed to change Section 271(f) as follows: "Section 271(f) of title 35, United States Code, is amended by

adding at the end the following: '(3) An item supplied in or from the United States is not a "component" under this section unless the item is a tangible item that is itself combined physically with other components to create the combination that is alleged to infringe.'" S. 3818, 109th Cong. § 5 (2006), H.R. 2795, 109th Cong. § 5 (2005). Both of these proposals evince a desire to ensure that software is on the same footing as other patentable material, and that it should receive neither increased scrutiny nor added protections, a proposition that this amicus strongly supports. Congress decided that it could not "take a position on this proposal without further study." Staff of H. Comm. On the Judiciary, 109th Cong., Patent Act of 2005 (Comm. Print 2005). Until Congress decides to act or to express clearly its intention to expand the scope of Section 271(f), the courts are constrained to interpret Section 271(f) in its current form and not on a form that they preferred Congress to have adopted.

B. To Copy Is Not To Supply

Liability under Section 271(f) does not attach for the simple fact that neither the software object code nor the Windows program at issue was "supplied" from the United States. Section 271(f) proscribes "suppl[ying] or caus[ing] to be supplied" components of a patented invention to be combined overseas. *See* 35 U.S.C. § 271(f) (2000). Although the multitude of software codes installed on computers overseas are not supplied from the United States, the court nevertheless ascribed liability because it thought those installed codes are "copied" in a way that can be "subsumed" in the term "supplied." *AT&T*, 414 F.3d at 1370.

Leaving aside the incredible weight the court below hoisted on the shoulders of the one word "subsumed," its analysis misses one key analytical step. What is supplied from the United States is the software code, contained on the golden master disk, Pet. App. 47A ¶ 10, akin to instructions or blueprints. The golden master disks are not

simply "copied" abroad. Instead, physical duplicates of the golden master disks are manufactured in foreign factories. While software perhaps can be copied more easily than other products, this duplication still entails a physical process that happens much the way any other commodity would be manufactured abroad: via factories, machines and workers. The physical manufacturing process cannot be ignored. The lower court ignores this step when it conflates copying and supplying to achieve a result that is not intended by Section 271(f) – the proscription of behavior that is permissible under patent law generally and Section 271(f) specifically.

Even ignoring the physical replication process prior to assembly with the computer hardware, "[t]he act of supplying is separate and distinct from copying, reproducing, or manufacturing," and "one act of 'supplying' cannot give rise to liability for multiple acts of copying." *AT&T*, 414 F.3d at 1373 (Rader, J., dissenting). The proper function of the judiciary is to interpret statutes as they are written – starting with the language of the statute. *See, e.g.*, *Williams* v. *Taylor*, 529 U.S. 420, 431 (2000); *see also Parker* v. *Flook*, 437 U.S. 584, 596 (1978). Unless a statute contains particularized definitions of the words used therein, "words will be interpreted as taking their ordinary, contemporary common meaning." *Chakrabarty*, 447 U.S. at 308 (quoting *Perrin* v. *United States*, 444 U.S. 37, 42 (1979)). Section 271(f) contains no specific definitions of "supplying," either in the statute itself or in the legislative history. Thus Congress has not directed that "supplying" is to bear any other import than that accompanying its contemporary, common meaning. It is not within the province of the Court to read other words or word meanings into the statute when they have not been specifically provided by Congress. *See Williams*, 529 U.S. at 431 (citing *Walters* v. *Metro. Educ. Enters., Inc.*, 519 U.S. 202, 207 (1997)).

A simple analogy illustrates the fallacy in the lower court's reading. Suppose that, instead of the manufacture of computer object code, this case involved the manufacture of

a computer spacebar key. If a single infringing spacebar key were manufactured in the United States, exported, and installed on a foreign computer, liability could attach to that computer under Section 271(f). But if the infringing exported spacebar key were used as a model for foreign-manufacture of duplicate spacebar keys, there could be no liability under Section 271(f) because the foreign-manufactured spacebar keys were not "supplie[d] . . . from the United States." 35 U.S.C. § 271(f)(1). The United States manufacturer of the spacebar key could even send the foreign manufacturer instructions detailing the proper way to manufacture the spacebar key without being subject to liability under Section 271(f). *See Pellegrini* v. *Analog Devices, Inc.*, 375 F.3d 1113, 1117-18 (Fed. Cir. 2004). The decision below imposes liability for foreign-manufactured software in legally indistinguishable circumstances.

The lower court's own language betrays a recognition that it is reading into the law something that simply is not there. The Federal Circuit notes that the infringing component is "*deemed* supplied," *AT&T*, 414 F.3d at 1369 (emphasis added), and that "[a]ll of such resulting copies have *essentially* been supplied," *id.* at 1370 (emphasis added), to try to squeeze the act of copying into that of supplying.

If ambiguity appears when interpreting a statute, the court should look to its legislative history and statutory purpose in order to determine congressional intent. *See Chakrabarty*, 447 U.S. at 315; *see also Parker*, 437 U.S. at 596; *Brown*, 60 U.S. at 196-97. But the statute here provides no ambiguity. Indeed, the legislative history of the statute and the congressional purpose for passing the statute further reinforce that only the act of supplying – not copying – is proscribed by Section 271(f). Congress enacted Section 271(f) in response to *Deepsouth* in order to close the particular loophole that the case exposed: the statute, in its pre-*Deepsouth* iteration, technically permitted components of a patented product to be shipped

overseas for assembly. Congress intended to prevent companies "from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad." *Section by Section Analysis: Patent Law Amendments of 1984*, 130 CONG. REC. 28069 (Oct. 1, 1984), *available at* 1984 U.S.C.C.A.N. 5827, 5828, 1984 WL 37541. This legislative history confirms that it is only the *supplying* of components which Section 271(f) forbids – companies still may copy such components overseas to create the patented product without being subject to any liability under Section 271(f). Nothing contained in the legislative history suggests a different interpretation.

Indeed, the congressional history further establishes that Congress intended to address "the need for a legislative solution to close *a loophole* in patent law," *id.*, and the Court should not mistake the intention to close a particular loophole with a desire to apply the statute to the facts before it. Congress's rectification of the *Deepsouth* loophole also demonstrates that the legislature will not rely on courts to effectuate changes in the law. Thus, the interpretive position that AT&T and the lower court impress upon Section 271(f) should be addressed to Congress, not to the courts, because the courts may not read limitations and conditions into patent law that have not been clearly expressed by the legislature. *See Chakrabarty*, 447 U.S. at 317; *Gottschalk* v. *Benson*, 409 U.S. 63, 73 (1972).

The lower court's attempt to justify its decision by claiming that it must hold Microsoft liable to prevent a "technical avoidance" of the statute, *AT&T*, 414 F.3d at 1371, is unavailing. Despite the obvious difference between the terms "supply" and "copy," the lower court refused to recognize their divergence: "[w]ere we to hold that Microsoft's supply by exportation of the master versions of the Windows® software – specifically for the purpose of foreign replication – avoids infringement, we would be subverting the remedial nature of § 271(f),

permitting a technical avoidance of the statute. . . ." *Id.* Thus, to prevent this "technical avoidance," the lower court held Microsoft liable for copying – not supplying – software. However, there is no interpretive exception to proper judicial statutory construction for "technical avoidance of the statute."

This exception to statutory interpretation adopted by the lower court would transform the narrow "absurd results" exception that this Court has articulated into an interpretive black hole that swallows the textual rule. It is the function of the courts to interpret and apply the law as it appears, not to create the law by misconstruing statutory language for their own purposes. To be sure, the courts do have some discretion to reject statutory interpretations which produce "absurd results," but this discretion is quite narrow and applies only where a literal reading would result in "absurd results or would thwart the obvious purpose of the statute." *Helvering* v. *Hammel*, 311 U.S. 504, 510-11 (1941). Although, once enacted, statutes may sometimes lead to "mischievous, absurd or otherwise objectionable" results, the proper remedy lies with Congress, not the courts. *Crooks* v. *Harrelson*, 282 U.S. 55, 60 (1930). Were the courts to take free license to widen or narrow the scope of statutory text at their discretion, statutes would be rendered meaningless. In accordance with proper judicial restraint, the Court has qualified the "absurd results test" by stating that it "rarely invokes such a test to override unambiguous legislation." *Barnhart* v. *Sigmon Coal Co., Inc.*, 534 U.S. 437, 459 (2002). In the instant case, a literal reading of Section 271(f) does not create absurd results, but instead creates uniform results that apply consistently for software as they do for other patentable products. Further, a literal reading does not "thwart the obvious purpose of the statute" since that purpose, as discussed *supra* at Part I.B, was to address the particular loophole at issue in *Deepsouth*. Since there is nothing implausible about Section 271(f) applying only to the supplying of components overseas, and not the copying, the court "cannot escape this unambiguous statutory

command by proclaiming it would produce an absurd result." *Koons Buick Pontiac GMC, Inc.* v. *Nigh*, 543 U.S. 50, 65 (2002) (Stevens, J., concurring).

The act of copying, as a separate and distinct act from the act of supplying, is not proscribed by Section 271(f). The statute does not state nor did Congress intend that patented items be banned from being copied overseas. As such, the lower court erred when it held Microsoft liable for copying software overseas.

C. The Software Object Code at Issue Is Not a "Component" Under Section 271(f).

Separately, liability does not attach because neither the golden master disk shipped abroad, nor the software object code within it, can constitute a "component" under Section 271(f).

The text and history of Section 271(f) demonstrate that the term "component" contemplates a United States-manufactured physical product, the original of which when combined (in a way that meets the threshold of 271(f)) in a foreign-assembled invention infringes on a U.S. patent. In *Bayer AG* v. *Housey Pharmaceuticals, Inc.*, 340 F.3d 1367 (Fed. Cir. 2003), the Federal Circuit recognized that the term "component," as used in Section 271(g), must "refer[ ] to *tangible objects and not intangibles* such as information. Thus, the production of information is not within the scope of processes of 'manufacture.'" *Id.* at 1372 (emphasis added). The term "component" under Section 271(f) should be given its textual meaning – "tangible objects and not intangibles" – the same meaning the term is given under Section 271(g).

The text and history of Section 271(f) also indicate that the section requires any "component" under its ambit to be produced, or at least physically present, in the United States. The only thing that was ever present in the

United States that eventually became a part of the final allegedly infringing product was the information contained on the golden master disk. Even the lower court, with the liberties it has taken with the statutory text, could not stretch the information contained on the disk to be a tangible object.

Furthermore, if the component is considered to be the physical manifestation of that information – the golden master disk – Section 271(f) still cannot apply because of the further requirement that the component be exported in a manner to induce a "combination of such components outside of the United States." Nothing that was ever physically present in the United States was ever combined with anything else "in a manner that would infringe the patent." The Federal Circuit stated in *Pellegrini* that Section 271(f) is "clear on its face" and applies "only where components of a patent invention are *physically present* in the United States and then either sold or exported 'in such a manner as to actively induce the combination of *such components* outside the United States in a manner that would infringe the patent if such combination occurred within the United States.'" 375 F.3d at 1117 (internal citation omitted) (emphasis added).

In this case, nothing produced in the United States was ever installed on foreign-manufactured computers. Only the golden master disk was shipped out of the United States, and this disk was only duplicated on foreign machines – not placed in foreign-manufactured computers to create the alleged final infringing product. As applied to this case, Section 271(f)'s "component" requirement can only properly refer to a foreign-made copy of the golden master disk installed onto a particular foreign-manufactured computer. Since foreign-manufactured duplicates are not covered by United States patent laws or the text of Section 271(f), such a duplicate cannot be a "component" under Section 271(f).

The panel below ignores the duplication steps involved, rationalizing that foreign manufacturing of duplicates of the Microsoft golden master disks is less than an arduous process. "It is inherent in the nature of software that one can supply only a single disk that may be replicated – saving material, shipping, and storage costs – instead of supplying a separate disk for each copy of the software to be sold abroad." *AT&T*, 414 F.3d at 1370. The ease of manufacturing should be irrelevant for purposes of extraterritorial application of United States patent law. Many components of patented inventions are easy to duplicate. Extending liability to foreign-manufactured duplicates whenever a court finds that a company has "taken full advantage of the replicable nature" of the product, *id.* at 1370, is untenable.

The panel below extends Section 271(f) to cover not only combinations of United States-manufactured components of a patented invention not assembled within the United States, but also to combinations of material not even manufactured within the United States. Such judicial extension of Section 271(f), unsupported by the text or history of the statute, and indeed contrary to long-settled notions of statutory interpretation, should not be allowed to stand.

CONCLUSION

For the foregoing reasons, the decision below should be reversed.

Respectfully submitted,

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